COMMONWEALTH *of* VIRGINIA

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To: Agency Heads

From: Lemuel C. Stewart, Jr., Chief Information Officer of the Commonwealth

Re: Commonwealth Integration Update

I am pleased to report significant progress in the IT Integration efforts as a result of your cooperation and support. I write to provide you with an update of results and benefits of interest to you and your agencies.

Direct Bill Approach

The direct bill approach was approved by JLARC June 14, replacing the interim rates for in-scope services established previously. This means you pay for services you request and approve, and VITA will bill your agency for those costs plus an administrative fee. The administrative fee is set at 5.52 percent and is applied to IT infrastructure expenses and the salaries of those who support the infrastructure. Legacy services, such as telecommunications, continue to be charged under existing rates—VITA will not charge an additional 5.52 percent.

The administrative fee represents a small portion of total in-scope agency budgets, on average, 0.1 percent. No matter how small this cost may be, we recognize that in these times, any increase is a burden to any agency. As a demonstration of sharing equally with you in any adverse impact from these charges, I have directed that VITA further reduce its current operating expenses equal to the single greatest impact of the administrative fee for any agency. For VITA, this 0.7% reduction will be on top of other across the board budget reductions I have put in place for FY05.

My goal with your collaborative support is to identify and capture cost savings to offset these fees for agencies during FY 05 and to gradually shift to a shared services rate structure. Because we can leverage our buying power with the existing infrastructure as a result of consolidation, I anticipate that overall costs to your agency will be neutral or lower by end of this fiscal year. I also anticipate phasing out completely the direct bill approach by mid-2007, so all services will be provided through shared services rates.

Cost Savings

The best news is Secretary Bennett has approved our savings plan allowing you to retain any savings in FY05 equal to the cost of the administrative fee ($6.7 million total). VITA has identified 15 cost savings initiatives that require minimal investment, are low risk, have a high probability of success, and will result in the $6.7 million in savings we all need. With your support and participation I am confident we can offset the total integration expense—and more—during FY05.

You have asked many times, "what is the value of this effort?" and "what's in it for me?" From the perspective of the Commonwealth and the individual agency, the value will grow significantly as we move through and complete the integration. Some agencies have begun to experience benefits already. Savings are beginning to accrue, small agencies have received new technology solutions not otherwise affordable, and we have only begun to leverage our combined size in the marketplace. Within the next 90 days I believe you will see firsthand the potential benefit in terms of real dollar savings to your agency.

I have attached two charts for your review. The first represents the cost savings and cost avoidances for FY04-06 as a result of initiatives already completed. As you can see over the 6-year baseline, together we have reduced our IT spend by approximately $107 million.

The second chart is a longer-term perspective of the anticipated value of transforming how we manage IT investments and, at the same time, improve citizen services in the Commonwealth. Simply put, the objective of the consolidation is to reduce the cost of the "IT utility" (infrastructure and processes) and increase the investments in citizen service programs (applications and services). Operating as an enterprise organization over the next six years there is a high probability that we can shift over $500 million dollars of our current IT expenditures from the "utility" into your mission critical citizen service programs.

Medium and Large Agency Transition

The medium agency and VDOT mergers were completed successfully July 1. On behalf of the IT Investment Board and the transition team, I thank all those agencies for their cooperation and support in achieving this important milestone.

Using lessons learned from the small and medium agency integrations, we have begun focused efforts to ensure success with the next and final phase of the integration initiative: integrating the large agencies by January 1, 2005. I appreciate the cooperation and dedication to a smooth transition—particularly for employees—among the Large Agency Transition Team and agencies.

Customer Service and Support

VITA has hired seven outstanding individuals to serve as Enterprise Service Directors (ESDs). ESDs represent each Secretariat as customer service advocates and supervise agency service level directors. If you are not familiar with VITA's customer service and support framework, please visit http://www.vita.virginia.gov/jobs/esdInfo.cfm.

Your ESD will be in contact with you shortly to ask for your participation in pursuing these important cost-savings and cost-avoidance initiatives. I look forward to working with each of you to jointly pursue the opportunities before us, exceeding your customer service expectations and greatly improving how we do business in Virginia for the benefit of our citizens and taxpayers.

Please call on me, Deputy Chief Information Officer Cheryl Clark, or your respective ESD anytime with your ideas, suggestions, or any concerns you may have about the services we provide. Thank you.

Attachments

cc: The Honorable William H. Leighty, Chief Of Staff
        Governor's Cabinet
        Information Technology Investment Board Members